DMO FINANCING REMIT 2013-14: 20 MARCH 2013

1. The DMO's financing remit for 2013-14 has been published today as part of the Budget 2013 announcements. The main points are summarised below.

A. Debt issuance by the DMO

The DMO plans to raise £162.9[1] billion in 2013-14, split as follows:

Gilt sales:	£151.0 billion
Net Treasury bill sales:	£11.9 billion

B. Planned gilt sales

2. It is intended that the gilt sales plans will be met through a combination of:

- £121.0 billion of issuance in 43 auctions; and
- £30.0 billion of issuance via supplementary distribution methods, split:
  - £20.0 billion through a programme of syndicated offerings; and
  - £10.0 billion through a programme of mini-tenders.

3. The planned split of issuance by maturity and type of gilt to be sold via auctions and syndicated offerings is as follows:

Conventional:

Short:	£42.6 billion (28.2%) in 9 auctions
Medium:	£30.0 billion (19.9%) in 9 auctions
Long:	£32.6 billion (21.6%) in 10 auctions and via syndicated offerings (aiming to raise £24.6 billion by auction and a current planning assumption of £8.0 billion by syndication).
Index-linked:	£35.8 billion (23.7%) in 15 auctions and via syndicated offerings (aiming to raise £23.8 billion by auction and a current planning assumption of £12.0 billion by syndication).

4. In 2013-14 the DMO will look to launch new conventional and/or index-linked gilts which mature in the 50-60 year area, subject to market and demand conditions. Decisions on specific maturities to be issued will be taken after consultation with the market through the normal channels.

5. All types and maturities of gilt will be eligible for sale via mini-tender in 2013-14.

[1] Sales figures in this announcement are in cash terms unless otherwise indicated.

6. The issuance methods to achieve these targets are based on current planning assumptions. In particular, total financing achieved through supplementary methods (and the split by method) will be dependent on market and demand conditions at the time transactions are conducted.

C. The gilt auction programme

7. The calendar of gilt sales by auction in 2013-14 is attached in Annex A.

8. The DMO will publish average auction sizes (in cash terms) by maturity and type in its quarterly issuance calendar announcement for April-June 2013 (on 28 March 2013) and will publish planned average auction sizes in its regular auction size press releases and subsequent quarterly issuance calendar announcements thereafter. The DMO may size each individual auction above or below the prevailing average required (cash) size, taking into account the maturity of the bond being sold and prevailing market conditions.

D. The syndication programme

9. The DMO envisages using the syndication programme in 2013-14 to launch new gilts and for re-openings of high duration bonds. Depending on market feedback at the quarterly consultation meetings on the choices for such bonds, the DMO envisages holding at least four syndicated offerings (one per quarter) in 2013-14 but, after discussion with the market, it may hold additional transactions. The DMO will announce updates on the progress of the syndication programme, including any plans to schedule additional transactions, in its quarterly operations calendar announcements. Each syndicated offering will be sized having regard to size and quality of end-investor demand in the order book.

10. The mini-tender programme will be used as the main method to accommodate variations in proceeds from syndicated offerings. In the event that the proceeds from syndications fall consistently short of those required to deliver the planned total, the mini-tender programme will be increased. In the event that additional syndications are scheduled and/or the proceeds from syndication programme look set to exceed the currently planned total of £20 billion, the size of the mini-tender programme will be reduced.

11. In the event that a number of syndications are sized such that toward the end of the annual programme the remaining balance of sales to meet the planned syndication sales targets is too small to hold viable offerings (despite any offsetting adjustments to the mini-tender programme), the DMO may increase the syndication sales targets for long conventional and index-linked gilts in total by up to 10% of the size of the respective programmes.

12. The DMO will provide updates to the planning assumptions for the split between supplementary issuance via syndication and mini-tenders in each DMO press release announcing the results of a syndicated offering.

E. Interaction between the gilt auction calendar and the syndication programme

13. In order to facilitate the scheduling of a syndicated offering, the DMO may on an exceptional basis alter the timing of an existing gilt auction. An auction may be moved to another day in the week in which it was originally scheduled, to the previous week or to the following week. Any such changes may occur after the publication of the relevant quarterly issuance calendar but, if so, with a minimum of at least one week's notice. Any such changes would be announced alongside an announcement about the likely timing of a syndicated offering.

F. Gilt mini-tenders

14. The DMO currently plans to raise £10.0 billion (cash) in 2013-14 through a programme of mini-tenders of any type or maturity of gilt. The scheduling of mini-tenders will take place during the year, depending on market demand and the progress of the syndication programme. Hence, the size of the mini-tender programme may be increased or reduced in accordance with any variations in the sizes of syndicated offerings during 2013-14 (see paragraph 10).

15. Mini-tenders will be added to the calendar with at least seven working days notice, after consultation with market participants. Market consultation may take place via the quarterly consultation process or at other times during the year.

16. The choice of gilt to be issued at each mini-tender will be determined on a case-by-case basis by the DMO in consultation with the market. Mini-tenders will be sized operation-by-operation and may vary in size subject to a maximum limit of approximately half the typical (cash proceeds) size of an auction of a comparable gilt by maturity or type. The DMO will announce the choice of gilt to be sold, as well as the maximum size for the operation, at least five working days before the date of each mini-tender.

G. Post Auction Option Facility (PAOF)

17. The PAOF will continue to be available in 2013-14. Successful bidders at auctions will have the option to purchase up to an additional 10% of the amount of stock allocated to them at the same auction. The option to buy (at the average accepted price at conventional gilt auctions and at the strike price at index-linked gilt auctions) will be open from midday to 2pm on the day of an auction.

18. The proceeds raised through the PAOF will count towards overall remit sales targets, but will be separately identified from amounts raised at auctions themselves. In the period before any restatement of the public finances forecast and the financing remit (currently expected at the Autumn Statement 2013), sums raised through the PAOF will not be taken into account in the calculation of required average auction sizes.

19. At a re-statement of the public finance forecasts (e.g. at the Autumn Statement) the proceeds from the PAOF to that date will be added to the auction proceeds totals, reducing the respective amounts to be raised by sector/type of gilt in the period following the re-statement, other things equal. These proceeds will be taken into account in the calculation of required average auction sizes for the remainder of the financial year. All other factors constant, therefore, the proceeds from the PAOF may be used to reduce auction sizes or to reduce the number of required operations in the period following the re-statement. Any use of the PAOF in these ways would be communicated to the market as part of an announcement of any update to the DMO's financing remit at the time of the re-statement.

20. In addition, at the re-statement of the financing requirement, the DMO will assume that proceeds from the PAOF up to that point will continue to accrue for the remainder of the financial year at the same rate per type and maturity of gilt. These assumed future PAOF proceeds will be subtracted from the balance of sales remaining in the period following the re-statement and average auction sizes will be calculated on the basis of the adjusted (lower) sales balances.

21. If actual proceeds raised through the PAOF after the re-statement differ from the assumed proceeds, this may result in auction sales exceeding or falling short of target - any such variance will be reflected in changes to the DMO's end-year net cash position.

H. Treasury bill sales

22. The stock of Treasury bills in market hands at end-March 2013 is forecast to be £56.1 billion, reflecting a contribution from Treasury bills sold bilaterally of £4.6 billion. It is planned that net Treasury bill issuance via tenders in 2013-14 should be +£11.9 billion, implying a stock level of £68.0 billion at end-March 2014.

23. The DMO has discretion to vary the Treasury bill stock over the end of the financial year in line with its cash management operational requirements. Any difference between the outturn and planned target stock for 2012-13 will be reported in April 2013, along with any wider implications for the DMO's financing remit in 2013-14 arising from the publication of the outturn for the 2012-13 Central Government Net Cash Requirement (CGNCR).

I. Changes to the financing requirement

24. The Debt and Reserves Management Report (DRMR) 2013-14 includes revised forecasts for the CGNCR for 2012-13 and 2013-14 of £105.1 billion and £113.9 billion respectively. These represent a reduction of £1.0 billion for 2012-13 and an increase of £8.9 billion for 2013-14 since Autumn Statement 2012.

25. The other main changes impacting on financing since the Autumn Statement 2012 are:

2012-13

- the estimated outturn of gilt sales is £164.8 billion, £0.6 billion higher than the £164.2 billion target, primarily reflecting higher than planned sales of short- and medium-dated conventional gilts.

- an increase of £2.6 billion in forecast end-March 2013 stock of Treasury bills, from £53.5 billion to £56.1 billion, reflecting additional sales of bills sold on a bilateral basis that mature after 31 March 2013; and

- an increased contribution to financing from National Savings & Investments from -£2.0 billion to -£0.8 billion.

26. The combination of these factors together with the lower CGNCR has led to a forecast net cash position for the DMO at end-March 2013 of £6.1 billion, relative to a planned net cash position of £0.5 billion. As usual in these circumstances, the additional cash position will be run-down in 2013-14, reducing the financing requirement in that year by £5.6 billion.

J. Supplementary Information

27. The gilt auction calendar for 2013-14 is published at Annex A.

28. The financing arithmetic for 2012-13 and 2013-14 is published at Annex B.

29. The planned split of gilt issuance by type, maturity and method of issuance is published at Annex C.

30. Revised illustrative financing projections to 2017-18 are published at Annex D.

31. A note on the redemption of 2½% Index-linked Treasury Stock 2013 is published at Annex E.

Annex A: Gilt auction calendar 2013-14

09-Apr-13	Conventional
11-Apr-13	Index-linked
18-Apr-13	Conventional
24-Apr-13	Index-linked
08-May-13	Index-linked
14-May-13	Conventional
16-May-13	Conventional
04-Jun-13	Index-linked
11-Jun-13	Conventional
13-Jun-13	Conventional
20-Jun-13	Conventional
02-Jul-13	Conventional
09-Jul-13	Index-linked
11-Jul-13	Conventional
06-Aug-13	Conventional
08-Aug-13	Index-linked
15-Aug-13	Conventional
20-Aug-13	Index-linked
03-Sep-13	Index-linked
10-Sep-13	Conventional
12-Sep-13	Conventional
19-Sep-13	Conventional
03-Oct-13	Conventional
08-Oct-13	Index-linked
17-Oct-13	Conventional
05-Nov-13	Index-linked
14-Nov-13	Conventional
19-Nov-13	Conventional
21-Nov-13	Conventional
03-Dec-13	Conventional
10-Dec-13	Index-linked
12-Dec-13	Conventional
07-Jan-14	Index-linked
16-Jan-14	Conventional
23-Jan-14	Conventional
04-Feb-14	Conventional
11-Feb-14	Index-linked
13-Feb-14	Conventional
20-Feb-14	Conventional
04-Mar-14	Conventional
11-Mar-14	Conventional
13-Mar-14	Index-linked
25-Mar-14	Index-linked

Auction dates are subject to confirmation depending on the timetable for Budgetary announcements by HM Treasury and the Office for Budget Responsibility.

Annex B: Financing arithmetic 2012-13 and 2013-14

£bn	2012-13	2013-14
Central Government Net Cash Requirement	105.1	113.9
Adjustment for NRAM and B&B[1]	-2.7	-2.9
Gilt redemptions	52.9	51.5
Financing for the Official Reserves	6.0	6.0
Gilt secondary market purchases[2]	0.0	0.0
Planned short-term financing adjustment[3]	-17.2	-5.6
Gross Financing Requirement	144.1	162.9
Less:		
Contribution from National Savings & Investments	-0.8	0.0
Net Financing Requirement	**144.9**	**162.9**
Financed by:		
1. Debt issuance by the DMO		
a) Treasury bills (net stock change in financial year)	**-14.4**	**11.9**
b) Gilt sales (planned outright sales)	**164.8**	**151.0**
Short conventionals	50.8	42.6
Medium conventionals	34.7	30.0
Long conventionals	37.5	32.6
Index-linked	35.9	35.8
Mini-tenders	6.0	10.0
2. Other planned changes in short term debt[4]		
Ways and Means	0.0	0.0
3. Change in the DMO short term cash position[5]	5.6	0.0
Total financing	**150.5**	**162.9**
Short-term debt levels at end of financial year		
Treasury bill stock (in market hands)	56.1	68.0
Ways and Means	0.4	0.4
DMO net cash position	6.1	0.5
Figures may not sum due to rounding.		

1. Reflecting the reclassification of Northern Rock (Asset Management) and Bradford & Bingley as part of Central Government.

2. Purchases of "rump gilts", with a small nominal outstanding, in which Gilt-edged Market Makers (GEMMs) are not required to make two-way markets. The Government will not sell further amounts of such gilts to the market but the DMO is prepared, when asked by a GEMM, to make a price to purchase such gilts.

3. To accommodate changes to the stated year's financing requirement resulting from: (i) publication of the previous year's CGNCR outturn, (ii) an increase in the DMO's cash position at the Bank of England, and/or (iii) carry over of unanticipated changes to the cash position from the previous year.

4. Total planned changes to short-term debt are the sum of (i) the planned short-term financing adjustment, (ii) net Treasury bill sales, and (iii) changes to the level of the Ways and Means Advance.

5. The change in the short-term cash position for 2012-13 (and the level of the net short term cash position at the end of the financial year) reflects changes to the public finance forecasts, any changes to financing from NS&I and Treasury bills (including those sold direct to counterparties separately from weekly tenders). It will also reflect any variances between the gilt sales outturn and plans. In addition, the change will include any impact on financing arising from other activities carried out within Government (e.g. issuance of tax instruments, transfers between central government and other sectors, and foreign exchange transactions). The zero change for the short-term cash position in 2013-14 assumes that the DMO's planning assumption for the end-year Treasury bill stock is met. A negative (positive) number here indicates an increase in (reduction in) the financing requirement for the following financial year.

Annex C: Planned split of gilt issuance by type, maturity and method of issue

(£ billion)	Auction	Syndication	Mini-tender	Total
Short conventional				
£ billion	**42.6**			**42.6**
Per cent				28.2%
Medium conventional				
£ billion	**30.0**			**30.0**
Per cent				19.9%
Long conventional				
£ billion	**24.6**	**8.0**		**32.6**
Per cent				21.6%
Index-linked				
£ billion	**23.8**	**12.0**		**35.8**
Per cent				23.7%
Total	**121.0**	**20.0**	**10.0**	**151.0**
	80.1%	**13.2%**	**6.6%**	

Annex D: Illustrative gross financing projections

The table below shows annual illustrative gross financing projections from 2014-15 to 2017-18 using updated projections of the CGNCR plus the latest estimate of gilt redemptions and planned financing for the Official Reserves in these years. These are not gilt sales forecasts and, in particular, make no assumption about any contribution to financing from NS&I or the sale of Treasury bills.

(£ billions)				
	2014-15	**2015-16**	**2016-17**	**2017-18**
CGNCR projections	113	100	83	61
Adjustment for NRAM and B&B	-3	-2	-1	-3
Gilt redemptions	62	68	69	79
Financing for the reserves	6	0	0	0
Illustrative gross financing requirement	**178**	**166**	**150**	**138**
Figures may not sum due to rounding.				

Annex E: Index-linked uplift and the redemption of 2½% Index-linked Treasury Stock 2013

The redemption total for 2013-14 of £51.5 billion does not include the full value of the index-linked uplift on 2½% Index-linked Treasury Stock 2013. The reasons include the rules governing the Central Government Net Cash Requirement (CGNCR). These rules state that part of the accrued inflation uplift on any redeeming gilt that represents the return to investors should be included in the CGNCR in the redemption year, and the remainder should be included in the redemption total for the year in which the relevant gilt redeems.

More specifically, in cases where an index-linked gilt is re-opened (following an initial issue) any accrued uplift on that gilt that is accrued before the re-opening occurs will be treated as principal (and therefore part of the redemption total). However, any accrued inflation uplift that occurs after the re-opening of the gilt will be treated as a return to the investor and thus will be included within the CGNCR for the year in which the gilt matures.

Since all cash flows on 2½% Index-linked Treasury Stock 2013 are now known, it is possible to calculate the final breakdown between those cash flows that count towards redemptions and those that count towards the CGNCR forecast for 2013-14. The nominal amount of this gilt in issue is £7.620 billion, and the total uplifted amount by the time of redemption will be £21.083 billion, so the total uplift is £13.463 billion.

The nominal amount in issue (less Government holdings - see below) will count toward redemptions[2]. Of the £13.463 billion of total uplift, £5.548 billion is included in redemptions and £7.914 billion is included in the CGNCR forecast for 2013-14.

The value of the uplift on Government holdings (£0.803 billion at end-February 2013) is not, however, included in either the 2013-14 redemption total or the CGNCR forecast. This reduces both the amount of uplift that counts towards redemptions (to £4.963 billion) and the amount included in the CGNCR (to £7.080 billion).

[2] This amount (and amounts in the final paragraph) may need to be adjusted subsequently if the amount of Government holdings at end-March 2013 is different to the amount at end-February 2013. The publication of the 2012-13 CGNCR outturn in April 2013 will provide an opportunity for any such adjustment.